Compliments of The First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

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Economic Conditions
Governmental Finance
United States Securities

New York, January, 1927

Capital Increase, National City Bank

THE Board of Directors of The National City Bank of New York in December recommended that at the annual meeting of shareholders to be held January 11, 1927, action be taken by the shareholders to authorize the increase of the capital of the bank by $25,000,000 and the increase of the capital and surplus of The National City Company by the same amount.

In his letter to shareholders, dated December 11, the President said in part:

After such increases, the capital of the Bank will be $75,000,000 and its surplus $50,000,000, with undivided profits of upwards of $15,000,000; while the capital of The National City Company will be $25,000,000, and its surplus $25,000,000, with substantial undivided profits. The earning power of the Bank and its allied institutions, including The National City Company, gives promise that the present rate of dividends, equivalent to $20. per share on the capital stock of the Bank, can be maintained on the larger capital. The proposed capital increase will be immediately profitable to shareholders, as will doubtless be evidenced by the usual active market for subscription rights.

The present is an opportune time, in the judgment of your Board, for an increase in the capital structures of the Bank and the City Company. The policy of branch banking extension in New York City, as evidenced by our activities in the Borough of Manhattan and by our acquisition this year of the Peoples Trust Company, giving us eleven branches in the Borough of Brooklyn, the marked growth of our business in foreign branches, the taking over by the Bank of the major activities and branches of the International Banking Corporation now in process, and the need both at home and abroad for buildings to house our banking activities, present requirements for additional capital. Furthermore, expansion means increased deposits; and your Directors deem it wise to continue the traditional policy of the institution of maintaining a somewhat larger ratio of capital and surplus to deposits than is dictated by general banking practice. The sphere of The National City Company's work is broadening and justifies an increase in its capital structure to the end that it may be supplied with independent means for institutional requirements.

Public announcement was also made of the proposal for the taking over by The National City Bank of New York of the branches of the International Banking Corporation throughout the world. The "I B C", as the organization is generally known through the Far East, where the largest number of its offices has been located, was founded in 1901 to specialize in Asiatic business, and its capital and surplus and undivided profits total $15,000,000. The stock is owned entirely by The National City Bank of New York. It is the only American bank operating branches throughout the Orient.

Following is a list giving the present location of all domestic and foreign offices of the International Banking Corporation:

CHINA
- CANTON
- DAIREN
- HANKOW
- HARBIN
- HONGKONG
- PEKING
- SHANGHAI
- TIENTSIN

ENGLAND
- LONDON

INDIA
- BOMBAY
- CALCUTTA
- RANGOON

JAVA
- BATAVIA

JAPAN
- KOBE
- OSAKA
- TOKIO
- YOKOHAMA

PHILIPPINE ISLANDS
- CEBU
- MANILA

SPAIN
- BARCELONA
- MADRID

STRAITS SETTLEMENTS
- SINGAPORE

UNITED STATES
- NEW YORK (HEAD OFFICE)
- SAN FRANCISCO

Services of the two consolidated institutions supplement one another. By making a complete unit of the two organizations, it is expected that the facilities for aiding in the development of American import and export trade will be further increased.

General Business Conditions

The New Year opens with good prospects for the continuance of prosperity. The past year has been one of the most prosperous in the history of the country, but it closes without signs of either price or credit inflation. The general commodity price level, as computed by Government agencies, is about 6 per cent lower than a year ago; furthermore, of the nine general groups of the classification only one—fuel—shows an increase and this is largely attributable to the British coal strike, which has caused unusual exports of coal from this country in recent months. This general, but for the most part moderate, decline of prices in the face of the largest movement of commodities ever known indicates that the heavy purchases have not been for stocks but for current consumption. All accounts agree

that stocks generally are low and that trade is in healthy condition.

The profits of business, as shown by corporation reports, have been better than in the preceding year, notwithstanding the declining trend of prices. This is accounted for by the economies resulting from a larger volume of business and the downward trend of prices is the natural result of increased production and lower costs.

The downward trend of prices has not been at the expense of the wage earning class, but of advantage to it, for the effect is to increase the purchasing power of a given wage. Employment has been practically full during the past year, and with prices tending downward the same wages would buy an increasing quantity of commodities.

The credit situation is very satisfactory. The total of discounted bills held by the twelve Federal reserve banks on December 29, 1926, was $711,000,000, against $750,000,000 on the corresponding date of 1925, showing that with all of the activity and increased production of the past year, the member banks have handled the demands without additional recourse to the Reserve banks.

This fact is noteworthy in connection with the apprehension often expressed that the practice of instalment selling is causing a dangerous expansion of credit. There has been no increased demand upon Federal reserve credit during the past year. In fact, during much of December the volume of Federal reserve credit outstanding has been less than a year ago, while the ratio of Reserve bank cash to combined note and deposit liabilities remains around 70 per cent, notwithstanding the Reserve bank policy of keeping a considerable amount of gold out in circulation. This situation is an effective guaranty against anything of the nature of a credit crisis in the near future.

Declining Capital Charges

Financial conditions are favorable to a continuance of industrial activity. The country is accumulating capital rapidly, and this capital is seeking investment, with the result that not only are new supplies available for new enterprises, but long term interest rates are falling and lowering the charges upon a great body of outstanding obligations. Dow, Jones & Company have computed that bonds called for payment in 1926 in advance of maturity have aggregated $816,000,000, which compares with $812,000,000 called in 1925, the previous record year. These figures show that the high rate bonds issued since the war are being rapidly paid off and retired and business ridding itself of the burden of these high rate obligations.

The tendency of bonds during the past year has been strongly upward, which means that the interest yield has been downward. The New York Times list of forty domestic bonds, which reached its highest point in 1925 on December 31 of that year at an average of 85.44, touched 89.75 in December of 1926, the highest average since 1913.

The average prices of ten foreign bonds, as given by the Times, was 103.80 at the high point of 1925, and 105.07 at the high point of December, 1926.

Farm mortgage rates have also been declining with other interest rates. Of the twelve Federal land banks, four (Omaha, Wichita, New Orleans and Houston) announced reductions in interest rates during the year, and seven are now making loans at 5 per cent.

Country Saving as Well as Spending

Despite evidences on all hands of free spending, the American people have been making a better record for saving than they are generally given credit for.

Sales of life insurance during 1926 again broke all previous records, the total for the eleven months through November approximating $10,117,140,000 or 6.6 per cent more than in the corresponding period of last year.

Three million more persons owned savings deposits at the close of the fiscal year 1926 than at the beginning, and there was an increase of $1,562,140,000 in the amount of funds on deposit. At $211 per capita total deposit savings reached a new high record for all time.

Christmas club savings funds broke the record this year, with total distributions of nearly $400,000,000, an increase of about 27 per cent over the distribution a year ago.

Building and loan association membership increased from 9,886,997 to 11,275,000, and total assets increased $770,000,000 or 14 per cent to $6,280,000,000, a new high record.

The demand for investment securities has been extraordinary. The only limiting factor on the bond business has been the inability of distributors to supply the issues as fast as they are wanted. Above all, the amazing thing is the growing legion of individual investors whose purchases are for cash, as the large investment houses do not as a rule sell on the partial payment plan. When one recalls the limited character of the old bond market, figures such as those quoted by Mr. Dwight L. Morrow of J. P. Morgan & Co., in a recent issue of Foreign Affairs, showing the distribution of five big foreign bond issues are truly remarkable in what they show of the changes that have been going on among bond buyers.

	Number of Purchasers	Average Purchase
Austrian 7s	8,350	$2,944
Japanese 6½s	38,412	3,905
German 7s	34,440	3,194
Argentine 6s	10,361	4,335
Belgian 7s	13,130	3,808

Added to the thousands of investors who have bought securities in the open market are the large numbers who are acquiring stock in the companies for which they work, usually under some company aid plan. At the close of the year more than 200,000 employes of the American Telephone & Telegraph Company were reported as contributing $2,500,000 monthly under one of these stock purchase plans. Approximately 60,000 employe-shareholders of the United States Steel Corporation are estimated to have profited to the extent of $22,000,000 from that corporation's recent dividend action, and there are many other similar examples where employes by their contributions during the past year and previous years have earned the right to share in the prosperity of industry.

Yet on top of all this the American people still had savings enough to effect during the year a reduction of approximately one billion dollars in the national debt.

There can be no better measure of the extravagance, or otherwise, of buying than the movement of prices. One need not fully endorse the present practices in regard to instalment credit, or minimize the importance of the production and credit problems created by it, to point out that despite all the attention given to this form of financing, neither the movement of bank loans or of prices gives any evidence that the use of bank credit or the relation of purchasing power to production has been unduly affected thereby. Bank loans have increased only moderately during the year, while the downward drift of prices has already been commented upon. Here indeed is the essential difference between the prosperity of 1926 and that of 1919-20. Six years ago we did have a great over-expansion of buying, and its symptoms were a large increase in bank credit and great upward surge of prices. None of these symptoms are present at the present time.

Business Enters 1927 Under Less Pressure But with Prospects Generally Favorable

Thus it is that although business goes into 1927 under a slightly reduced head of steam as compared with earlier months, there is good reason for confidence that the essential parts of the machine are in good working order. Retail trade has dominated the field of business during the past month, and while a large business has been done, the reports indicate some irregularity and suggest that developments such as the lessened employment in automobile centers may have had some effect on Christmas trade. It is significant to note in this connection that the volume of currency in circulation did not measure fully up to the normal Christmas increase, and inasmuch as a large part of the retail buying is done with hand-to-hand currency this is usually a good measure of the volume of trade.

Bank clearings, too, by their tendency to run below a year ago, have suggested a gradual quieting down of business as the year has drawn to its close, and even railway car loadings, which heretofore have been running steadily above 1925, showed in December for the first time a tendency to go off from the levels of a year ago. These developments have naturally excited comment, but no alarm, for it has been generally conceded that business could not go on indefinitely at top speed and that eventually it would have to come down to a plane of less intense activity. The present situation affords no exception to the rule that a perfect balance in industry never is obtained, but happily the basic factors appear sound. We may not continue to roll up new high records from month to month, but if we can come down and consolidate our growth and get our feet well under us on the basis of the average business for 1926 we will have achieved a fine record for 1927, and that seems well within the realm of possibility.

Production and Trade in 1926

Looking back over the record of 1926 discloses a memorable showing in many lines of production and trade. Following is but a partial list of the records broken during the year, but one which will serve to emphasize the extraordinary way in which prosperity has served to stimulate the various activities of the country:

Production
- Electric power consumption
- Building construction
- Steel production
- Automobile production
- Bituminous coal output
- Oil production and consumption
- Cotton production
- Newsprint output
- Silk goods output
- Rayon production
- Cement production
- Copper mining
- Tobacco products

Distribution
- Bank clearings
- Railway traffic
- Department store, chain store and mail order sales.

Finance
- New financing
- Stock exchange transactions

General
- Business profits
- Income tax returns
- Customs revenue
- Advertising
- Savings deposits
- Life insurance sales

The Steel Industry

Of the so-called key industries, the steel industry has made a good record in 1926. Production set a new record, probably in excess of 47,000,000 tons, and while prices have not been regarded as satisfactory the volume has been large enough to bring good profits. Earnings of the Steel Corporation for the first three quarters, totaling $145,502,216, were the largest for any similar peace time period, and further sensational evidence of the prosperity of the industry was furnished by the Corporation's action in declaring a stock dividend of 40 per cent. That the good earnings have by no means been confined to the leading interest

is shown by the following table comparing earnings for the principal companies for which quarterly reports are available. In a majority of cases not only the nine months' figures, but those for the third quarter alone compare very favorably as compared with the totals of a year ago.

EARNINGS OF 14 STEEL COMPANIES
(In thousands of dollars)

	1st 9 Mos. 1925	1st 9 Mos. 1926	Change	3rd Quarter 1925	3rd Quarter 1926	Change
U. S. Steel Corp.	66,899	85,433	+	33,805	31,710	+
Bethlehem Steel Corp.	9,585	15,765	+	2,091	4,551	+
Youngstown Sheet & Tube Co.	10,420	11,994	+	3,299	4,007	+
Inland Steel Co.	3,449	5,034	+	1,189	1,701	+
American Steel Foundries	3,624	3,966	+	835	1,041	+
Republic Iron & Steel Co.	2,499	3,756	+	438	1,312	+
Wheeling Steel Corp.	2,720	3,583	+	1,126	1,295	+
Otis Steel Co.	1,595	2,149	+	400	735	+
Colorado Fuel & Iron Co.	1,068	1,586	+	Def.186	Def.228	—
Donner Steel Co.	694	650	—	128	205	+
Gulf States Steel Co.	779	565	—	211	148	—
Replogle Steel Co.	395	534	+	198	219	+
Superior Steel Co.	30	276	+	64	53	—
Ludlum Steel Co.	297	243	—	101	63	—

Buying of steel has come from a wide range of consuming industries, including building, automobiles, the railroads, farm implements, and miscellaneous lines, but has been largely for immediate needs, so that the year closes without accumulation of stocks and with buyers facing the necessity of continuing in the market, providing general business holds up around its present levels.

During recent weeks mill activity has shown the usual holiday recession, but prices have been well maintained and the industry looks forward to the new year with confidence. Structural steel demand has been active, and outlook for oil pipe material is particularly bright. For more than a year the railroads have bought sparingly of new equipment, but the constant growth of traffic has made the need for new facilities more pressing. The roads must go on with their programs for laying heavier rail, and installing more powerful locomotives and heavier freight cars if they are to keep pace with the transportation needs of the country. They have also much to do in the way of improving terminal facilities, and the time has also come when many of the roads are finding it desirable to increase their mileage. The 1925 annual report of the Interstate Commerce Commission showed the first increase in mileage in nine years, and indications are that 1926 will show the largest building of new mileage since 1916.

Despite the fact that 1926 has not been a year of large railway expansion, the total capital expenditures of the roads for the first nine months of the year amounted to $629,000,000, or approximately $100,000,000 more than in the corresponding period of last year. By the end of the year it is estimated that the total expenditures will foot up to $875,000,000, which will compare with the expenditures in previous years as follows:

1920	$ 653,267,000
1921	557,035,000
1922	429,273,000
1923	1,059,149,000
1924	874,743,000
1925	748,191,000
1926 (estimated)	875,000,000
Grand total (7 years)	$5,196,658,000

With traffic growing rapidly, railway credit improving, and conditions favorable for financing expenditures, a further increase in railway expenditures in 1927 seems not improbable.

Building

Building construction has been heavy throughout 1926, but the margin of gain over a year ago has been steadily narrowing and towards the close of the year there has been a tendency for the figures to fall somewhat under those of 1925. Measured in terms of permits issued in the leading cities, the year's building total will apparently fall some $300,000,000 short of last year, but these figures are not wholly representative in that they do not include such important engineering projects as road construction, bridge building, etc., and are limited also to construction work within incorporated city limits. Building contracts, which cover this other construction, promise to run some $200,000,000 or $300,000,000 in excess of 1925. Following is a table giving comparative figures on contracts awarded each year since 1919:

BUILDING CONTRACTS AWARDED
(In Millions of Dollars)

	Amounts Awarded	Per cent Increase
1919 27 States	2,580	
1920	2,565	—0.6
1921	2,335	—8.2
1922	3,344	+42.0
1923	3,504	+4.8
1923 36 States	3,990	
1924	4,479	+12.3
1925	5,821	+30.0
1926 (December est.)	6,100	+4.7

In view of the high rate of building indicated by these figures a recession of some sort in 1927 would surprise no one, but there is nothing to suggest a drastic decline. In fact, the latest figures on contracts, which were for November, exceeded those of a year ago by a small margin. The following table, however, suggests that changes are taking place in the character of construction work. Residential building, which for so long showed the biggest gains, was in 1926 about even with a year ago, and the largest increases were in industrial building and public works and utilities.

	11 Mos. 1925	11 Mos. 1926
Commercial Buildings	$ 767,903,800	$ 845,694,300
Educational Buildings	381,558,200	358,900,600
Hospitals and Institutions	96,279,100	116,484,600
Industrial Buildings	433,409,000	621,323,100
Military & Naval Buildings	5,819,900	8,540,900
Public Buildings	42,571,700	52,064,700
Public Works and Public Utilities	793,819,400	987,808,000
Religious and Memorial Buildings	139,467,300	132,353,600
Residential Buildings	2,421,774,000	2,467,154,200
Social and Recreational Buildings	228,347,600	222,194,900
Total	$5,310,950,000	$5,812,518,900

Road building and other large public projects loom large for the coming year, New York City alone proposing to spend millions in subway building and other improvements for the city and port. According to reports by wire to the Electrical World, the electrical utilities industry in 1927 expects to spend $958,000,000 for new equipment and plant, compared with $841,000,000 in 1926 and $721,000,000 in 1925. A glance at the real estate supplements of the Sunday press does not indicate any backwardness in the planning of new industrial and residential construction. Quite evidently the American people are still far from satisfied with their industries and cities as they are, and easy money and absence of any marked rise in building costs are having the effect of prolonging the building boom.

Building trades wages have continued their steady advance, the Engineering News-Record index of wages rising 6 per cent during the year to a new high level 148 per cent above 1913. Building materials prices, however, averaged somewhat lower, so that total construction costs advanced but slightly.

Automobiles

Production of passenger automobiles and trucks in the United States during the eleven months ended November totaled 4,092,854 vehicles, indicating that the year will probably set a new high record, slightly in excess of that of 1925. Up to October, and excepting June and July, production ran steadily ahead of a year ago, but a sharp falling off occurred in recent months and the year closed with factory operations at a low point.

Clearly the industry has passed the stage where all companies can make easy money. Competition is getting keener, and the line between the successful and unsuccessful companies more sharply drawn. Probably production and earnings during 1927 will reflect the continuation of this selective process, but there is not yet evidence that the industry is facing any general slump of great severity. Some companies have done exceedingly well during the past year, and most of them have ambitious plans for the coming year. Not all of them will be able to come up to the mark, but there seems no real need for concern about those companies that have been demonstrating so conspicuously their ability to supply the public with the kind of a car it wants.

Following is a statement showing the trend of earnings in the industry over the past year. While most companies show reductions a few, including General Motors, made large increases, and the totals for the twenty companies listed was likewise larger than last year.

EARNINGS OF 20 MOTORS AND MOTOR ACCESSORIES
(In thousands of dollars)

	1st 9 Mos. 1925	1st 9 Mos. 1926	Change	3rd Quarter 1925	3rd Quarter 1926	Change
General Motors Corp.	74,244	136,973	+	28,162	54,546	+
Nash Motors Co.	11,133	14,792	+	3,840	4,644	+
Chrysler Corp.	16,275	13,453	—	8,078	4,437	—
Studebaker Corp.	15,157	11,804	—	5,085	3,068	—
Willys-Overland Co.	13,639	10,811	—	3,183	2,229	—
Packard Motor Car Co.	10,325	10,604	+	5,943	1,954	—
Hudson Motor Car Co.	16,722	7,984	—	6,927	1,927	—
Mack Trucks, Inc.	7,268	7,289	+	2,614	1,559	—
Briggs Mfg. Co.	5,093	6,773	+	1,025	1,359	+
Stewart-Warner Speedometer Co.	5,373	4,808	—	1,906	1,687	—
Hupp Motor Car Corp.	2,736	3,071	+	598	1,011	+
Yellow Truck & Coach Mfg. Co.	1,592	1,679	+	385	164	—
Motor Wheel Corp.	2,372	1,511	—	437	515	+
Moto-Meter Co., Inc.	1,497	1,465	—	509	370	—
Peerless Motor Car Corp.	258	1,139	+	212	239	+
Pierce-Arrow Motor Car Co.	971	980	+	406	176	—
American-La France Fire Engine Co.	520	603	+	180	197	+
Hayes Wheel Co.	1,254	318	—	374	17	—
Jordan Motor Car Co.	559	288	—	125	16	—
Mullins Body Corp.	273	235	—	82	85	+

Our Foreign Trade

The decline in our export trade balance in 1925 and again in 1926 is sometimes referred to as affording ground for apprehension that we are failing to hold our own in world competition, but an analysis of the figures does not support this view. The falling off in 1925 was mainly accounted for by the decline in grain and meat exports and higher prices on rubber imports, and that of 1926 is wholly accounted for by the low price of cotton. These are temporary conditions. Quantitatively our exports in 1926 have been larger than in any previous year, with the possible exception of 1919. Exports of manufactures have continued to increase. Our exports of iron and steel products have increased 30 per cent in 1926 over 1925, in the face of severe European competition and the whole line of machinery exports increased 10 per cent. Only 28 per cent of all our imports in 1926 was of manufactured goods and manufactured foodstuffs, compared with 30 per cent in 1925.

The National Foreign Trade Council in a review of the year 1926 makes the following statements:

In the products requiring salesmanship abroad and in which the American aptitude for supply is marked, such as finished manufactured products, the first ten months of the year showed a gain of more than $120,000,000 over the corresponding period of the preceding year. This 8 per cent advance in the element of American export trade to which most attention is paid was a notable sign of the growth. It gives added weight to the pre-eminence already attained in our exports by goods wholly manufactured, including foodstuffs and semi-manufactured products.

The aggregate proportion of these three divisions of our exports has risen from 66.8 per cent in the first three quarters of 1925 to 70 per cent in the corresponding period of 1926.

Another feature of strength in our export trade over last year, is the wide distribution of products which go to make it up. The records of the first nine months of the year show that 41 per cent of our exports were comprised of products no one of which constituted 1 per cent of our total exports. In 1925 this proportion was only 34 per cent. The growing spread of our export trade among minor items is in itself the best assurance of the stability of its growth.

Evidence of the distribution of our export trade among minor markets is also shown by the fact that we are sending a lesser proportion of goods to Europe and a greater proportion elsewhere throughout the world. Asia increased her takings from us by 24

per cent, Africa by 16 per cent, Japan and South America by 11 per cent, and Canada by 13 per cent. It is worthy of note that the Irish Free State increased its purchases from this country more than any other nation, Irish purchases from the United States having more than doubled during the first nine months of the year.

The country's export balance in 1926 is still over $300,000,000. Gold imports have exceeded gold exports by about $90,000,000, notwithstanding foreign loans aggregating over one billion dollars. In view of these facts and our ample reserves of gold it is impossible to justify fears that exports of gold metal may be a serious factor in the near future. To anyone who comprehends the reciprocal nature of trade relations there is no terror in any increase of imports that appears within the range of probability. There is no disputing the proposition that as a creditor nation we must in the long run have imports in excess of exports in order to receive even the interest on the indebtedness running to us.

Crop Values

Misgivings as to the buying power of the country in 1927 has centered largely upon the decline of prices for agricultural products. The Government's estimate of the total value of the principal farm crops, based upon prices on the first day of December, places it at $7,801,313,000, in comparison with $8,949,321,000 in 1925, showing an apparent decline of $1,148,000,000. These figures, however, are not complete or final. One important fact to be considered is that they do not include the value of secondary products, such as live stock, dairy products, poultry, eggs, etc. It is well known that the feed grains have been disproportionately low on the market during the past year, owing to diminished consumption on the farms, while returns on grains fed out on the farms have been generally good. In 1925 the crops of Iowa were reported as of less value than in 1924, but the total income of Iowa farmers from all products in 1925 is now reported at $712,000,000 against $628,000,000 in 1924. That the selling price of corn and oats is commonly given an exaggerated importance in discussing farm income is shown by the Department's estimate that of $712,000,000 of total farm income in Iowa in 1925, only $65,000,000 is estimated to have come by sales of corn and $29,000,000 by sales of oats. It is evident that fluctuations in the value of corn and oats in the market may be of relatively small importance in the total farm income of states like Iowa.

In this year's estimate of crop values corn is calculated at a market value on December 1, of 64.4 cents per bushel, and on this basis the crop of 1926 is estimated at $263,000,000 less than that of 1925, owing to declines in both price and yield. It is seldom that a smaller crop brings a lower price per bushel and it is due in this case to an unusually large carryover from the preceding crop, which is largely in farmers' hands and yet to be realized upon. This crop, however, is of low "keeping" quality and important losses may be suffered on this account.

Hog Production Profitable

According to Government figures, 1926 has been the best year on record for hog producers, judged by the ratio between corn and hog prices. The long-accepted corn-hog ratio is 10 to 1, meaning that on the average 10 bushels of corn will produce 100 lbs. of hog on the hoof. Therefore, with corn at 50 cents per bushel, whatever the farmer gets above $5.00 per cwt. for hogs is pay for the care and risk of producing the hogs. During 1926 the corn-hog ratio in January was 15.8 to 1; in February, 17.2 to 1; in March, 17.5 to 1; in April, 17.5 to 1; in May, 17.8 to 1; in June, 18.7 to 1; in July, 17.7 to 1; in August, 14.7 to 1; in September, 15.8 to 1; in October, 16.2 to 1. In other words, the monthly price of hogs, per cwt., was equivalent to the price of the number of bushels of corn indicated, and if it took only 10 bushels to produce that amount of pork, there was a substantial margin of profit in its production.

It is interesting to note that during 134 of 200 months the return was within 1.5 of 10, either above or below. The yearly averages are:

1910	13.3	1918	10.6
1911	11.1	1919	10.3
1912	9.9	1920	9.8
1913	12.2	1921	14.0
1914	10.5	1922	14.4
1915	9.2	1923	9.0
1916	10.7	1924	8.2
1917	9.7	1925	11.3

The average for the full year 1926 is not yet available, but it will be above 17. Obviously this high ratio in favor of hogs has been hard upon the farmers who have had to sell their corn, but the price of corn has been no criterion of the profits of farmers who have had hogs to consume their own corn.

The Fall pig crop of 1926 is estimated at 4 per cent larger than that of 1925. This means about 500,000 pigs and is much below what was expected in view of the profits of hog production at present prices. The price of corn in Chicago has declined 7 cents per bushel since this pig report was published, which is a clear indication that the remedy for the low price of corn is to be found on the farms rather than in Washington. It is useless to grow corn or oats for city consumption. These grains must be consumed on the farms. The cities are not keeping horses as formerly and even on the farms the number has been declining.

Cattle and Sheep

In the opinion of people experienced in the business and well situated to judge present conditions the live stock industry is now in

the best shape it has been in since 1918. The Drover's Journal of Chicago reviews the past year and discusses the future as follows:

The return on cattle of all kinds during 1926 was above the average of the five years preceding. Total marketing for the year, in numbers, showed but a slight variation from 1925, which in turn was about the same as 1924. The 1926 price level ranged, on the whole, at about the same level as in 1925, both years being well above 1924, and above the 1921-25 average.

The most noteworthy price fluctuation during the year was the decline on extremely heavy, finished cattle during the summer months, resulting in heavy losses. However, such cattle make up but a very small percentage of the total beef supply at any season of the year, and both plain, light cattle and fat yearlings, making up the bulk of present-day production, did well for the producer, in a majority of cases. During December, 1926, $14.35 per cwt. was paid for yearling steers, the highest price in over a year.

It appears that beef production is just entering a cycle of increasing returns. This began to show up last year. It has been further emphasized this year. Careful students expect it will not reach its peak before 1930. The ordinary business cycle is a familiar phenomenon. Its length varies in different kinds of business. In beef cattle production it runs about 14 years from peak to peak and trough to trough. The evidence indicates that the upward turn, from the trough, is now under way in beef production.

Market receipts of sheep and lambs were 9 per cent larger in 1926 than in 1925, and returns not so good. The Drover's Journal sums up on sheep as follows:

While there is no immediate prospect of improvement in prices paid for sheep and lambs the fact should not be overlooked that the industry is still on a relatively high level—paying better than market prices for feed—and the producer is thus able to show a profit. There have been losses, however, on thin lambs bought at high prices during the fall months for finishing in feed lots.

Cattle prospects—extra good.
Hog prospects—extra good.
Sheep prospects—fair.

According to the Bureau of Economics, Department of Agriculture, the average price of wool in October, the latest month for which prices are available, gave a purchasing power over the 404 commodities of the Bureau of Labor price tables which in comparison with the average of the five years 1909-13 was 17 per cent above the parity.

In dairy products, eggs and poultry, the farmers have had a good year and the outlook is good. According to the Bureau of Economics, Department of Agriculture, during the month of October the purchasing power of butter over the 404 commodities comprising the Bureau of Labor's price table in comparison with the average of the five years 1909-13 was 108, or 8 per cent above the parity. Butter is selling now about 5 cents per pound above the price one year ago, and heavy shipments of foreign butter have been coming into the country recently, despite the duty of 12 cents per pound. New Zealand butter is being landed in New York, duty paid, at about 3 cents under the present market prices for equal quality, but the settlement of the British coal strike and an improvement in general industrial conditions is expected to result in larger consumption in Great Britain.

Storage eggs are about 2 cents per pound higher now than a year ago, with fresh eggs about the same as then. Cheese is about the same price as a year ago.

The Cotton Crop

The principal loss in the value of last year's crops was in the cotton crop. It is calculated at 10.9 cents per pound in 1926, against 18.2 cents in 1925, with a loss in the aggregate value of $581,324,000. The market on the date of the calculation was at about the lowest point on the crop to this time. Since then an advance of about $5 per bale has occurred, which on the basis of the calculation would mean approximately $100,000,000 on the crop. Of course the estimate at best can be only an approximation to what the crop will actually bring. It should be said in this connection that other crops have been increasing in importance in the South in recent years, and were unusually good in 1926. The tobacco crop is bringing a good return.

Money and Banking

The year 1926 has been one of comparative stability in banking. Commercial demands have shown a healthy expansion, in keeping with the activity of industry, but there is no evidence of borrowing to excess. In fact, the conspicuous feature of the present situation has been the ability of business concerns to finance themselves with comparatively little additional recourse to bank credit.

A note of caution has been sounded in high quarters over the present large holdings by many banks of securities and collateral loans which are ineligible for rediscount or pledge at the Reserve banks. The expansion of these holdings in recent years has been due largely to the fact that gold imports have caused supplies of funds to increase faster than they could be absorbed in the ordinary commercial channels, so that banks have had no other alternative than their employment in the security markets. A word of caution on this subject is timely, and the problem of maintaining liquidity should engage the attention of all bankers, but fortunately there is no evidence that the strength of the banking position has thus far been impaired. According to the report of the Comptroller of the Currency for 1926, the national banks alone on June 30 last held eligible paper and United States securities amounting to $5,966,529,000. If we do not get more gold it is natural to expect that the savings of the country will gradually absorb this large floating supply of securities, and that banks will once more increase their holdings of commercial paper.

As a matter of fact, figures of the past year would seem to indicate that these tendencies

are already in motion. The table below giving classified totals of loans and investments of the weekly reporting banks in principal cities over the past five years indicates that whereas in previous years investments and collateral loans have formed the largest part of the increase in aggregate bank credit outstanding, in the past year the reverse has been the case, and most of the increase has been in the holdings of commercial paper.

year, and this change, together with the lower level of net demand deposits, has meant during recent months a lessened demand upon the country's banking reserves. At the same time the volume of these reserves has been increased by net imports of gold of approximately $90,000,000 since last year. So long as these conditions persist it is pretty certain that nothing in the nature of tight money is in the offing.

LOANS AND INVESTMENTS OF REPORTING MEMBER BANKS IN LEADING CITIES

	—1922— December 13	—1923— December 12	—1924— December 10	—1925— December 9	—1926— December 8
Loans on U. S. Securities	$300,224,000	$224,070,000	$179,545,000	$175,892,000	$137,614,000
Loans on other Stocks and Bonds	3,680,485,000	3,767,997,000	4,603,544,000	5,440,124,000	5,400,034,000
All other loans (largely commercial)	7,277,383,000	7,925,456,000	8,189,223,000	8,435,708,000	8,803,889,000
Investments	4,531,429,000	4,471,521,000	5,604,053,000	5,417,073,000	5,531,355,000
Total Loans and Investments	$15,789,521,000	$16,389,044,000	$18,576,365,000	$19,468,797,000	$19,872,892,000

With the resources of the Reserve banks practically untouched, money conditions continue easy, with no prospect of strain. Commercial borrowings at the banks are showing a seasonal reduction after having reached a peak in November, and liquidation of Federal bank credit in most districts is running a normal course, with the total of member bank rediscounting generally below a year ago. The following table, comparing average weekly rediscounts of the different Reserve banks for the four weeks ended December 22 in 1925 and 1926 indicates that only in the St. Louis and Atlanta districts are rediscounts running materially above a year ago, the increase in the latter district doubtless reflecting in part the situation in Florida:

REDISCOUNTS AND ADVANCES OF FEDERAL RESERVE BANKS

(In thousands of dollars.)

	Weekly Average Dec. 1-22, 1925	Weekly Average Dec. 2-23, 1926	Dollar Change of Dec. 1926 from Dec. 1925	Percentage Change of Dec. 1926 from Dec. 1925
Boston	45,604	50,346	+4,742	+10.4%
New York	193,451	143,600	—49,851	—25.8%
Philadelphia	59,761	55,284	— 4,477	— 7.5%
Cleveland	90,196	87,077	— 3,119	— 3.5%
Richmond	43,766	27,951	—15,815	—36.1%
Atlanta	29,321	46,868	+17,547	+59.8%
Chicago	94,384	109,903	+15,519	+16.4%
St. Louis	24,132	35,635	+11,503	+47.7%
Minneapolis	5,830	4,435	— 1,395	—23.9%
Kansas City	19,459	14,280	— 5,179	—26.6%
Dallas	10,354	11,043	+ 689	+ 6.7%
San Francisco	60,353	45,562	—14,791	—24.5%
Total 12 Banks	676,610	621,983	—54,627	— 6.6%

As 1926 draws to its close, holiday requirements for currency, coupled with preparations for the year-end payments, and other demands incident to the season, have as usual at this time of year, caused a temporary firming in the money markets, and call rates have risen to 5½ and 6 per cent. January, however, should bring the usual seasonal easing. Currency requirements, which during the summer were running $80,000,000 to $100,000,000 above a year ago, have recently dropped down to where they are about equal to, or below last

Public Capital Issues in 1926

The volume of capital issues offered in American markets during 1926 will be about $500,000,000 more than in 1925, which year had previously held the record since the war. The most recent figures, covering the year ended November 30, 1926, shows a total for the period of $7,491,155,571 as compared with $6,938,-388,453 for the year ended November 30, 1925. Final figures for the calendar year will show little variation from the figures here presented for the year ended November 30. The increase in the total volume of new issues is not a result of uniform increase in the various investment groups. Total capital absorbed by foreign governments, for instance, shows a tremendous shrinkage—$466,632,000 in 1926 as compared with $736,381,000 in 1925. Motors and accessories showed a shrinkage from $213,378,000 in 1925 to $131,645,000 in 1926. Last year's figures of course are abnormal because they include an item of about $150,-000,000 on account of Dodge Brothers financing. Practically all the other groups show increases, with the exception of the railways, which shrank from $494,598,000 in 1925 to $414,413,000 in the present year. The total for public utilities showed the greatest increase with capital issues of $2,019,959,000 for the present year as compared with $1,675,776,000 for 1925. Oils also increased substantially—$470,216,000 for 1926 as compared with $262,-038,000 in 1925, the figures for 1926, however, including $120,000,000 for refunding operations by the Standard Oil Company of New Jersey. Any diminution in building activity does not seem to show up in the capital figures, the item for land and buildings being only $6,000,-000 less than for last year.

The following table, prepared from figures furnished by the Commercial and Financial Chronicle, itemizes the flotations in the United States for the twelve months ended November

30, 1926, with the amounts for new capital and for refunding operations listed separately.

Flotation of New Capital in the United States During 12 Months Ended November 30, 1926

	New Capital	Refunding	Total
Railroads	$ 336,746,000	$ 77,667,000	$ 414,413,000
Public Utilities	1,660,965,474	358,994,470	2,019,959,944
Industrials—			
Iron, Steel, Coal and Copper	190,987,496	52,135,200	243,122,696
Equipment Mfrs.	14,927,500	13,000,000	27,927,500
Motors and Accessories	131,269,650	376,000	131,645,650
Other Industrials and Mfg.	581,633,374	98,629,575	680,262,949
Oil	233,187,690	237,028,725	470,216,415
Land, Buildings, etc.	705,559,980	26,698,000	732,257,980
Rubber	58,479,537	———	58,479,537
Shipping	27,950,000	5,050,000	33,000,000
Miscellaneous	536,970,725	40,353,100	577,323,825
Municipal	1,311,334,728	17,939,847	1,329,274,575
Canadian brought out in U. S.	71,292,000	49,000,000	120,292,000
U. S. Territories and Possessions	11,422,500	———	11,422,500
Foreign Governments	433,759,000	32,873,000	466,632,000
Farm Loan Issues	134,725,000	40,200,000	174,925,000
TOTAL	$6,441,210,654	$1,049,944,917	$7,491,155,571

Corporate issues include Canadian issues amounting to $215,364,500 and other foreign $500,079,040.

Foreign Loans

While the total volume of foreign government issues floated in the United States during 1926 is substantially smaller than during 1925, the total of foreign issues for all purposes, including government, state, municipal and corporate, showed a slight increase, being $1,212,689,000 in 1926 as compared with $1,194,589,000 in 1925. Most striking in the comparison of this year's results with those of last year are a substantial decrease in the volume of new issues coming out of Europe and a counter-balancing increase in the volume from Latin-America, indicating an ability on the part of Europe to meet a larger portion of her own capital needs from within and the growing importance of the South American countries as an outlet for investment capital from the United States. European issues in 1926 reached a total volume of $571,154,000 as compared with $737,045,000 during 1925. The volume of Latin-American financing on the other hand showed an increase from $203,234,000 in 1925 to $424,540,000 in 1926. Government issues from Europe represent only about 12 per cent of the total from Europe—$71,500,000 in 1926 compared with $280,000,000 in 1925.

FOREIGN BORROWINGS IN 1926
(Up to and including December 28th)

Europe

	Principal Amount	
Government.		
Kingdom of Belgium	$50,000,000	
Republic of Finland	15,000,000	
Kingdom of Italy (lire issue)	2,000,000	
Kingdom of Bulgaria	4,500,000	
		$71,500,000
State and Provincial.		
Province of Lower Austria	$2,000,000	
Free State of Anhalt	2,000,000	
Province of Styria	5,000,000	
Free State of Bavaria	10,000,000	
Free State of Prussia	20,000,000	
State of Hamburg (2)	15,000,000	
		$54,000,000
Municipal.		
City of Oslo	$4,000,000	
Cons. Mun. of Baden	4,500,000	
German Con. Mun. Loan, German Sav. Bks. & Cl. Assn.	23,000,000	
Bavarian Pal. Cons. Cities	3,800,000	
City of Leipzig	5,000,000	
City of Hanover	2,000,000	
Hungarian Cons. Mun.	6,000,000	
City of Chemnitz	2,000,000	
City of Berlin (Mark Issue)	2,500,000	
		$52,800,000
Corporate Railroad.		
German Railways Co. (Stk.)	$357,300	$357,300
Public Utility.		
Consol. Hydro. Elec. Wks., Upper Wuerttemberg	$4,000,000	
International Power Securities Corp.	5,000,000	
Italian Public Utility Credit Inst.	20,000,000	
Silesia Elec. Corp.	4,000,000	
Berlin City Elec. Co. (2)	23,000,000	
Sachsen Anhalt El. Co. of Halle (Gtd.)	1,000,000	
First Fed. Foreign Invest. Trust (Stk.)	2,000,000	
Saxon Public Works (State Gty.)	15,000,000	
Stettin Public Util. Co.	3,000,000	
Mannheim & Palatinate Elec. Co.'s	3,000,000	
Oberpflaz Elec. Power Corp. (Gtd.)	1,250,000	
International Tel. & Tel. Co. (Stk.)	19,996,500	
Leipzig Overland Power Co.'s	3,000,000	
Unterelbe Power & Light Co.	2,500,000	
Berlin Elec. Elev. & Undergd. Rys. Co.	15,000,000	
		$121,746,500
Industrial.		
Leonhard Tietz A/G	$3,000,000	
Rheinelbe Union	25,000,000	
Saxon State Mtge. Inst. (State Gty.)	5,000,000	
European Shares, Inc. (Stk.)	5,000,000	
German Credit & Invest. Corp. (Stk.)	10,000,000	
Good Hope Steel & Iron Wks.	2,500,000	
United Steel Wks., Burlach-Eich-Dudelange (Arbed.)	10,000,000	
Lloyd Sabaudo S.S. Line	2,400,000	
Roman Catholic Ch. in Bavaria	5,000,000	
Housing and Realty Imp. Co.	1,500,000	
Ilseder Steel Wks., Inc.	7,500,000	
European Mtge. & Invest. Corp.	5,000,000	
Intl. Sec. Trust of America	5,000,000	
Mansfeld Mining & Smelt. Co.	3,000,000	
Crespi Cotton Wks. (lire)	848,000	
United Steel Wks. Corp. (2)	30,815,000	
"Miag" Mill Machy. Co.	3,000,000	
Hungarian Land Mtge. Inst.	3,000,000	
Roman Catholic Ch. Welfare Inst.	3,000,000	
Silesian American Corp.	15,000,000	
Fiat	10,000,000	
Anglo-American Oil Co., Ltd.	6,000,000	
Disconto Gesellschaft (Stk.)	3,690,000	
Siemens & Halske A/G; Siemens Schuckertwerke Gm. b. H.	24,000,000	
Second Intl. Sec. Corp. (Stk.)	6,000,000	
International Match Corp. (Stk.)	15,750,000	
Hugo Stinnes Industries, Inc. (2)	25,000,000	
Protestant German Welfare Inst.	2,500,000	
Ulen & Co.	4,000,000	
Saxon State Mtge. Inst. (State Gty.)	4,000,000	
Hungarian Genl. Sav. Bank (Stk.)	250,000	
Amer. British & Cont. Corp. (Stk.)	10,000,000	
United Industrial Corp.	6,000,000	
Dresdner Bank (Stk.)	952,800	
Vereinsbank in Hamburg (Stk.)	130,000	
Bayrische Hypotheken & Wechsel Bank of Munich (Stk.)	952,800	
German Genl. Credit Bank (Stk.)	470,300	
Reichsbank (Stk.)	119,100	
Deutsche Bank (Stk.)	238,200	
Mannesmann Tube Co. of Dusseldorf	5,000,000	
Copenhagen Handelsbank (Stk.)	134,000	
		$270,750,200
Total Corporate		$392,854,000
Total European		$571,154,000

ASIA

Municipal.		
City of Yokohama (Govt. Gty.)	$19,740,000	$19,740,000
Corporate.		
Public Utility.		
Toho Elec. Power Co., Ltd.	$10,000,000	$10,000,000
Total Asiatic		$29,740,000

Latin-America

Government.		
Gov. Argentine Nation (2)	$36,900,000	
Dominican Republic	3,300,000	
Republic of Uruguay	30,000,000	
U. S. of Brazil	60,000,000	
Republic of Panama (2)	4,800,000	
Republic of Salvador (2)	1,520,000	
Republic of Peru	16,000,000	

	Principal Amount	
Republic of Chile	42,500,000	
Republic of Honduras	500,000	
Republic of Costa Rica	8,000,000	
		$203,520,000
State and Provincial.		
Prov. of Buenos Aires (4)	$53,393,000	
Dept. of Caldas	10,000,000	
State of Sao Paulo	7,500,000	
Dept. of Antioquia (2)	9,000,000	
Dept. of Cauca Vallet	2,500,000	
Dept. of Cundinamarca	3,000,000	
Municipal.		$85,393,000
City of Porto Alegre (State Gty.)	$4,000,000	
City of Montevideo	5,171,000	
City of Santiago (Pesos)	850,000	
Corporate Railroad.		$10,021,000
International Rys. of Central America	$3,500,000	
The Cuba Railroad Company	1,376,000	
Cuban Northern Railroad Co.	400,000	
Public Utility.		$5,276,000
Havana Elec. Railway Co. (2) (Partly Stock)	$10,500,000	$10,500,000
Industrial.		
Andes Petroleum Corp. (Stk.)	$1,950,000	
Agric. Mtge. Bk., Colombia (Govt.Gty.)	3,000,000	
Cuban Dominican Sugar Corp.	16,000,000	
Mtge. Bank of Chile (Govt. Gty.)	30,000,000	
Caribbean Sugar Cor.	2,600,000	
Compania Cubana (Gtd.)	5,000,000	
Pantepec Oil Co. of Venezuela (Stk.)	3,780,000	
Trinidad Oil Fields, Inc.	1,500,000	
Mtge. Bank of Colombia	6,000,000	
Chile Copper Co.	35,000,000	
National Bank of Panama (Govt. Gty.)	1,000,000	
Patino Mines & Ent. Cons. (Stk.)	4,000,000	
		$109,830,000
Total Corporate		$125,606,000
Total Latin America		$424,540,000

Canada

Government.		
Dominion of Canada	$40,000,000	$40,000,000
Provincial.		
Alberta (3)	$8,200,000	
Saskatchewan	2,500,000	
Manitoba (2)	5,451,000	
British Columbia (2)	10,000,000	
British Columbia (Can. Issues) (2)	6,978,000	
Nova Scotia	5,000,000	
Ontario	27,250,000	
New Brunswick	2,792,000	
Quebec	7,500,000	
Municipal.		$73,421,000
Toronto	$7,722,000	
Montreal	7,000,000	
Winnipeg	2,500,000	
Ottawa	741,942	
Ford City	150,000	
Toronto Harbor Comm. (Mun. Gty.)	2,000,000	
Corporate.		$20,113,942
Railroad.		
Canadian Pacific Rwy. Co. (2)	$32,000,000	$32,000,000
Public Utility.		
Northern Ont. Lt. & Power Co., Ltd.	$5,250,000	
Manitoba Power Co.	7,000,000	
Duke-Price Power Co., Ltd.	37,000,000	
Gatineau Power Co. (2)	37,500,000	
Montreal Lt., Ht. & Power Co.	10,000,000	
Shawinigan Water Power Co.	3,000,000	
United Towns Elec. Co., Ltd.	250,000	
International Power Co., Ltd. (Stk.)	1,000,000	
Industrial.		$101,000,000
Dominion Stores, Ltd. (Stk.)	$990,000	
Canadian Rail & Harbor Term., Ltd. (2)	5,500,000	
Manitoba Paper Co., Ltd.	4,000,000	
Hamilton By-Product Coke Ovens, Ltd.	1,250,000	
Fort William Paper Co., Ltd.	3,500,000	
Vancouver Georgia Hotel	1,350,000	
Montreal Protestant Centl. School Bd.	1,110,000	
Montreal Rail & Water Term., Ltd.	3,000,000	
Cosmos Imperial Mills, Ltd. (Stk.)	1,500,000	
Ste. Ann Paper Co., Ltd.	5,000,000	
Canada S.S. Lines, Ltd.	7,500,000	
International Paper Co.	25,000,000	
Wood & English	350,000	
Powell River Co., Ltd.	4,000,000	
Minnesota & Ontario Paper Co. (2)	7,500,000	
Westminster Paper Co., Ltd.	175,000	
Sun Publishing Co., Ltd.	105,000	
		$70,330,000
Total Corporate		$203,330,000
Total Canadian		$336,864,942
New Financing—Principal Amount		$1,362,298,942

REFUNDING

	Principal Amount	
City of Montreal	$6,000,000	
Dominion of Canada	40,000,000	
Province of Nova Scotia	5,000,000	
Province of Quebec	7,500,000	
Government of Argentine	10,000,000	
Dominican Republic	2,800,000	
Northern Ont. Lt. & Power Co., Ltd.	5,006,500	
Manitoba Power Co., Ltd.	6,500,000	
Shawinigan Water & Power Co.	1,000,000	
Duke-Price Power Co., Ltd.	12,000,000	
Fort William Paper Co., Ltd.	2,015,000	
Siemens-Schuckertwerke / Siemens & Halske	5,000,000	
Anglo-American Oil Co., Ltd.	6,000,000	
Canada S.S. Lines	5,047,000	
Department of Cauca Valley	750,000	
Chile Copper Company	34,990,500	
Less Total Refunding		$149,609,000
Net New Financing		$1,212,689,942

Portion of American Offerings of Foreign Issues Placed Abroad

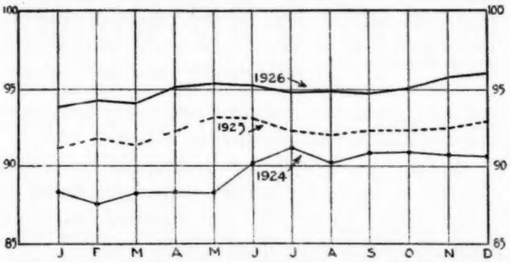
City of Leipzig	$1,250,000	
Free State of Anhalt	250,000	
Saxon Public Works, Inc.	4,000,000	
Province of Styria	1,000,000	
Province of British Columbia	2,000,000	
Province of Alberta	200,000	
City of Montreal	1,000,000	
Province of Ontario	5,000,000	
City of Winnipeg	475,000	
Province of New Brunswick	792,000	
City of Ottawa	241,942	
U. S. of Brazil	12,000,000	
Republic of Uruguay	2,500,000	
Rheinelbe Union	8,050,000	
European Shares	2,000,000	
Ilseder Steel Works, Inc.	2,250,000	
Mansfeld Mining & Smelting Co.	500,000	
Italian Public Utility Credit Inst.	5,000,000	
Manitoba Power Co., Ltd.	2,500,000	
Manitoba Paper Co.	1,500,000	
Minnesota & Ontario Paper Co.	2,000,000	
United Steel Works of Burlbach-Eich-Dudelange	2,500,000	
Republic of Finland	3,000,000	
German Con. Mun. Loan of Ger. Sav. Bks. & Clg. Assn.	3,050,000	
Free State of Prussia	2,500,000	
Siemens & Halske A/G / Siemens-Schuckertwerke, G.m.b.H.	6,500,000	
Berlin Elec. Elev. & Ugd. Rwy. Co.	3,000,000	
Free State of Bavaria	2,000,000	
Ft. William Paper Co., Ltd.	1,500,000	
Province of Buenos Aires	2,000,000	
City of Montevideo	1,500,000	
Less Total Offered Abroad		$82,058,942
Net New Financing in United States		$1,130,631,000

An evidence of an increase in the investment power of foreign countries is to be found in the growing practice of reserving a portion of new American offerings of foreign issues for sale abroad and in the increasing flow of outstanding foreign dollar issues back to investors in the countries of origin. While there is no way of estimating with any degree of accuracy the volume of foreign dollar bonds sold abroad during the year, it is obvious that the foreign demand is growing and that the increased flow of foreign securities out of our domestic markets will gradually cut down the available supply and thus stimulate firmer prices.

Bond Prices During the Year

The bond market maintained an even but slightly advancing tendency during most of the year with the high point in prices being reached during December. Prices declined slightly during the summer months but the

sharp advances during October, November and December which brought the general level to the highest point since 1917. The chart below, showing the Dow Jones averages for forty listed issues month by month for the past



three years, gives an effective visual demonstration of the gradually rising tendency in bond prices. The averages are given as of the 25th of each month, holidays excepted.

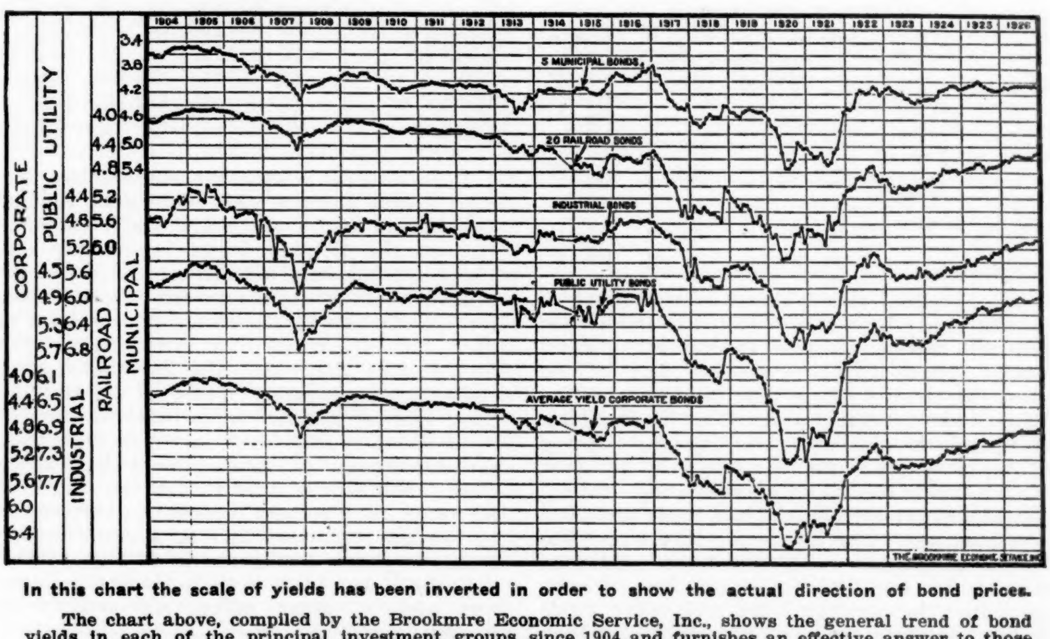
Group Comparisons

Comparative quotations of ten representative issues in each principal investment group for the past three years (quotations as of December 15th) give a more detailed picture of price trends and show the group variations:

HIGH GRADE MUNICIPALS
(20-year maturity)

	Price and Yield					
	Dec. 15, '24		Dec. 15, '25		Dec. 15, '26	
New York City 4¼s	103⅝	4.00%	101⅝	4.15%	101⅝	4.13%
Cleveland, Ohio 4¼s	102	4.10	101⅝	4.15	102	4.10
Kansas City, Mo., 4½s....	105⅝	4.10	104⅝	4.15	105⅝	4.10
State of Michigan 4½s....	105⅝	4.10	104⅝	4.15	105⅝	4.10
State of Missouri 4¼s.....	101¼	4.12	101⅝	4.15	102	4.10
State of West Virginia 4¼s	104	4.20	104	4.20	105⅝	4.10
State of Illinois 4s.......	97¼	4.20	98	4.15	99¼	4.05
Detroit, Mich., 4½s......	103⅝	4.25	103⅝	4.25	104	4.20
Jersey City, N. J., 4½s..	103⅝	4.25	104	4.20	104⅝	4.15
Los Angeles, Cal., 4½s..	102⅝	4.30	100⅝	4.45	102	4.35
Average		4.16		4.20		4.13

In spite of a reduction of about $100,000,000 in the volume of new state and municipal issues during 1926, as compared with the volume for 1925, municipal prices during most of this year lagged behind the general averages. The failure of the municipal average to keep pace with the average for bonds of other types was apparently due to the tremendous volume of new securities which the municipal market has been called upon to absorb since the war. Now that state soldier compensation programs are practically completed and municipalities have seemingly caught up pretty well on the financing of projects delayed during the war period, as evidenced by a substantial annual shrinkage in new issues since 1924, the municipal market appears to be in a position finally to adjust itself to a price level more in line with the levels prevailing in other groups. Any comparison of present day municipal prices with the general price level easily demonstrates that such bonds today are relatively cheap.



In this chart the scale of yields has been inverted in order to show the actual direction of bond prices.

The chart above, compiled by the Brookmire Economic Service, Inc., shows the general trend of bond yields in each of the principal investment groups since 1904 and furnishes an effective answer to those investors who gained their first experience in investment since the war and who seem to feel that the interest rates of a few years ago should somehow be maintained on investments made today. In the light of the past eight or nine years, bond prices today do seem high, but when compared with the average for a longer period they are still considerably below high points reached in the past. The chart seems to demonstrate that we are back on a fairly permanent higher level of bond prices and lower interest returns. In order to maintain a high degree of security, investors must be willing to adjust their ideas of income return to this changed situation.

HIGH GRADE RAILS

	Maturity	Price and Yield Dec. 15, '24		Dec. 15, '25		Dec. 15, '26	
Atch. General 4s	1995	88¾	4.58%	89¼	4.50%	92⅞	4.32%
Balt. & Ohio Gold 4s....	1948	96¼	4.99	89	4.79	93⅝	4.43
C. B. & Q. General 4s...	1958	88¼	4.69	90⅛	4.57	93⅝	4.37
L. & N. Unif. 4s.........	1940	92⅛	4.67	93¼	4.64	96⅛	4.37
N. Y. Central 3½s........	1997	76¼	4.67	77¾	4.56	81¼	4.36
Norfolk & West. 4s.......	1996	87⅞	4.58	90	4.47	93⅛	4.32
Nor. Pac. Pr. Lien 4s...	1997	84⅛	5.15	86	5.03	91¼	4.40
Penn. Cons. 4½s	1960	98¾	4.57	98¾	4.57	102	4.39
Southern Pac. Ref. 4s....	1955	87¾	4.76	88¾	4.70	93⅞	4.37
Union Pac. First 4s......	1947	90⅞	4.67	92	4.58	94⅛	4.40
Average			4.72		4.64		4.37

Both high grade and second grade railway bonds made good advances during the year in response to unprecedented railway prosperity, the greatest percentage of advance being made in the second grade issues whose market position is naturally more dependent upon current earnings. The ton mile figures now available would indicate that totals for the year will exceed by nearly 3 per cent the best previous record for a like period. Compared with the record for last year, the increase will be around seven per cent. The favorable earnings showing of the railways has been due quite as much to improvement in operating efficiency as to an increase in volume of traffic. Rolling stock generally is in excellent condition, trackage and terminal facilities are being improved, consolidations are gradually being effected where such are in the public interest, and the whole transportation machinery is operating more smoothly and economically than ever before. The future of well selected railway securities seems bright.

PUBLIC UTILITIES

	Maturity	Price and Yield Dec. 15, '24		Dec. 15, '25		Dec. 15, '26	
Tenn. Elec. Power 1st & Ref. 6s	1947	99¼	6.06%	102⅛	5.79%	105⅛	5.55%
Brooklyn Edison Gen. 5s..	1949	99⅝	5.03	102¼	4.84	104⅝	4.68
Mont. Power 1st & Ref. 5s	1943	97	5.26	100	5.00	102	4.82
Cons. Power 1st Lien & Unifying 5s	1952	91¼	5.63	98	5.14	102⅛	4.85
Amer. Tel. & Tel. Coll. Tr. 5s	1946	100¾	4.94	101⅛	4.91	102¾	4.79
Pac. Gas & Elec. Gen. & Ref. 5s	1942	94⅛	5.53	97⅝	5.22	100⅛	4.98
N. Y. Tel. 1st & Gen. 4½s.	1939	96¼	4.86	97⅛	4.74	98⅝	4.62
Peoples Gas Lt. & Coke Ref. 5s	1947	94	5.46	99½	5.04	102	4.85
Chic. Rapid Transit 1st & Ref. 6½s	1944	94½	7.01	95¼	6.93	98	6.69
United Railways & Elec. 1st Consol. 4s	1949	70¼	6.44	67	6.86	70½	6.52
Average			5.62		5.45		5.24

The gradual improvement of the prices of public utility bonds, as reflected in the almost uniform advance in the representative issues listed above, is the result not only of the changing level in long time money rates but also of the favorable position of the industry. Although the total of new utility issues during the year exceeds that of last year by over $200,000,000, the rapidly broadening institutional and private demand has easily absorbed the offerings. The improving investment position of public utility bonds is evidenced further by the broader legalization of such securities for savings bank and other funds subject to state supervision or control. About a dozen states now list public utility bonds among the "legals," the latest being Massachusetts, and favorable action is expected from several other states during the coming year.

INDUSTRIALS

	Maturity	Price and Yield Dec. 15, '24		Dec. 15, '25		Dec. 15, '26	
Illinois Steel Deb. 4½s..	1940	93⅛	5.12%	94⅞	5.01%	97½	4.75%
U. S. Steel 5s...........	1963	104	4.86*	105¾	4.76*	107¼	4.69*
Liggett & Myers Tob. Deb. 5s	1951	98⅛	5.13	100½	4.97	98⅛	5.13
Baldwin Locomotive 5s ...	1940	103	4.72	104	4.61	107	4.31
Amer. Smelt. & Refin'g. 5s	1947	95⅜	5.36	99¾	5.02	101⅛	4.91
Anaconda Cop. 1st Cons. 6s	1953	99⅝	6.05	101½	5.89	104¾	5.65
Willys-Overland 6½s	1933	99¾	6.54	102⅛	6.09	101¾	6.19
U. S. Rub. 1st & Ref. 5s	1947	85½	6.22	90½	5.77	94⅝	5.45
Inter. Paper 1st & Ref. 5s	1947	87	6.08	95⅛	5.36	97⅛	5.23
Humble Oil & Refin. Deb. 5½s	1932	99½	5.58	101¼	5.27	102½	5.01
Average			5.56		5.27		5.13

*Since a sinking fund is provided sufficient to redeem the entire issue before maturity by call at 110 per cent the yield has been figured on the basis of payment at maturity at 110.

While the trend of industrial averages moved in close sympathy with the trend of bond prices generally, the marked improvement in many individual industrial issues was the result of an improved earning position within the industry itself. The year 1926 has broken all records for industrial earnings. Resumptions or increases in dividends, begun by many corporations in 1925, have been carried on during 1926. Today finds an exceptionally large percentage of industrial corporations on a dividend basis. Stock split-ups and increases in capitalization have been common, as have also refunding operations and bond retirements. All of this has had an effect upon the price level of industrial bonds because it has built a firmer foundation than ever for such securities.

FOREIGNS

	Maturity	Price and Yield Dec. 15, '24		Dec. 15, '25		Dec. 15, '26	
United Kingdom 5½s.....	1937	104⅞	4.96%	104¾	4.94%	104¾	4.89%
Netherlands 6s	1954	100⅛	5.99	104	5.71	103⅛	5.74
Switzerland 5½s	1946	100¾	5.39	103⅝	5.20	103⅛	5.24
Denmark 6s	1942	100	6.00	103	5.71	104⅛	5.59
Sweden 5½s	1954	99⅝	5.53	101¾	5.38	103	5.29
Japan 6½s	1954	91⅝	7.21	92⅝	7.09	99⅞	6.51
Germany 7s	1949	95⅛	7.50	101¼	6.97	107	6.51
France 8s	1945	104⅛	7.79	100⅝	8.19	107½	7.50
Chile 7s	1942	99½	7.04	100⅛	6.96	100⅞	6.91
Argentine 6s	1957	95⅝	6.34	96⅛	6.28	98⅛	6.14
Average			6.37		6.24		6.03

Most notable among the constructive foreign events for the year were debt funding agreements with France and Italy, stabilization of the Belgian franc, improvement in European industrial conditions and expansion in investment assets abroad which has enabled foreign markets to absorb a bigger volume of their own securities than during any other period since the war. The list above gives rather an inadequate picture of the foreign bond market because it includes so few of those "semi-speculatives" in which the greatest percentage of improvement has taken place. While it is true that a fair share of the price improvement was due to betterment of foreign conditions and to a resulting increase in public confidence in foreign securities, the lower yield level in domestic issues was also a factor influencing activity in foreign issues.

United States Steel Corporation

The outstanding development in business affairs during the past month was the announcement that the Finance Committee of

the United States Steel Corporation would submit to the Board of Directors, and with the approval of the Board to the next meeting of stockholders, a recommendation that a stock dividend of 40 per cent be declared. The steady growth of the Corporation's assets and productive capacity has for several years made it reasonably certain that such action would be taken in due time, but premature reports have been in circulation so often that the public had ceased to have definite expectations and finally was taken by surprise.

In view of the prominence of the Corporation and the popular idea that stock dividends represent something in the nature of bonus payments, it was to be expected that comments upon the action would be numerous and in many instances without a clear understanding of what had been done or the basis for it. For example, one of the leading New York newspapers has included this stock dividend, which in any event will not be issued until next Spring and which at that time will not represent any disbursement of funds, in the sum of cash dividends declared in the fourth quarter of 1926.

In fact, a stock dividend conveys nothing to a stockholder which he did not possess before. It is simply a readjustment of the outstanding capitalization to the physical assets of the corporation, which remain unchanged. The assets remaining the same, the earning capacity is unchanged, and inasmuch as all stockholders are treated alike, each one has the same proportionate interest in the company and its earnings as before. The relations of the corporation to the public are unchanged, for the increased issue of stock does not enable the company to charge any more for its products. Whatever the earnings may be they could be distributed under one capitalization as well as another.

It may be asked, why then there should be so much interest in the announcement of a new stock distribution, with the stock changing hands at rising prices? The answer is that the announcement is evidence that in the opinion of the Finance Committee the growth of productive assets, the financial condition of the corporation and the general outlook for the business are such as to justify a larger distribution to stockholders from earnings than in the past. It has been obvious for some time to everybody at all familiar with the corporation's affairs that this point was not far off, and before the announcement of the distribution the price of the common stock had advanced to about 150, at which the 7 per cent dividend yielded purchasers less than 5 per cent on their investment. Following the announcement the price rose to 160, at which price the old stock plus a proportionate amount of the new would yield about 6.1 per cent on the investment, provided the 7 per cent dividend is maintained. At the same time the stock was quoted for delivery after the new issue is distributed at about 117, at which a 7 per cent dividend will yield approximately 6 per cent. Thus the two prices are in harmony and it is evident that buyers expect the 7 per cent rate to be continued.

The Corporation's History

The Corporation was twenty-five years old last April, having begun business April 1, 1901. It was organized largely by the purchase of existing and successful concerns, under the direction of men experienced in the industry, with a view to effecting economies in production and distribution by more effective organization, complete integration of the various processes from the mining of the raw materials to the delivery of finished products and the use of the most economical methods throughout. It owns railroads connecting its ore and coal properties with the great lakes and its manufacturing properties, a fleet of vessels upon the lakes and a fleet upon the high seas to facilitate its foreign business. It owns car-building, bridge-building and shipbuilding plants, tin-plate works, tube and pipe works, cement plants, oil and gas works, zinc mines, and various other properties which in some way are collateral to its main operations as a producer of iron and steel. The profits which the corporation has realized upon its sales therefore have included all of the profits on the various materials and partially finished products which had been realized by separate companies manufacturing coke, pig iron, etc., in mining coal and ore and in the transportation of such materials and products. The large volume of business has enabled it to operate under a comparatively low percentage of overhead expense.

The Corporation's fiscal year corresponds to the calendar year, hence full statistics of its operations are available only to December 31, 1925, or 24¾ years. In this time the gross amount of business done, represented by sales and services by its various units to customers outside the organization, aggregated $16,863,351,212, upon which the total net profits after deducting charges for depletion and depreciation, interest on debt and reserves for contingencies, were $2,178,912,403, equalling 12.92 per cent on the business turnover.

The Corporation was successor to well-established companies and was able to effect a considerable reduction in costs as compared with costs in the industry generally. In the main the period was one of high general prosperity and included four years of war which made heavy demands upon the iron and steel industry. The percentage upon turnover in this industry is not comparable to that of a mer-

chandising business or an industry in which the value of the product is high in relation to the investment. The gross sales and income of all kinds averaged about $681,000,000 per year, while the total capital, as represented by stock and debt was $1,403,382,223 in 1901 and $1,378,636,897 at the close of 1925. The policy of the steel business is to save wages by investing capital wherever that can be done, which makes the margin representing return to capital larger in proportion to the value of the product than in some other industries. Visitors to modern steel works usually remark upon the small number of workmen to be seen.

The Accumulated Surplus

Dividends upon the preferred stock at the rate of 7 per cent per annum have been paid from the beginning, which in the period under review called for $647,709,784. Dividends upon the common stock were varied from time to time, as earnings fluctuated and in pursuance of a policy of making large expenditures for extensions, additions and improvements. The first dividend rate on the common was 4 per cent, but in 1904 and 1905 no dividends were paid; then 2 per cent in three years, 4 per cent in one year and 5 per cent afterward to 1913. In 1914 the rate was dropped to 3 and in 1915 to 1¼ per cent, but in 1916, 1917 and 1918 the regular declaration was for 5 per cent and extras were paid. Thereafter the rate was 5 per cent until 1923, when ¾ per cent extra was paid and in 1924 and 1925 2 per cent "extra" was paid. In 1926 the dividend was placed on a regular 7 per cent basis. Total dividends on the common over the period of 24¾ years average 5.2 per cent, and the dividend disbursements on both common and preferred stocks aggregated $1,279,253,785.

Deduction of dividend disbursements from the net earnings left a balance of $899,658,618, which in the language of an official statement given at the last annual meeting, "represents the amount of net added value invested and retained in the fixed property and assets of the organization since April 1, 1901, after providing from earnings allowances for depletion, depreciation and amortization, which it is believed equitably and fairly measure loss in fixed property value, on basis of its investment cost, arising from exhaustion and deterioration."

Up to the close of 1925, $637,919,054 had been appropriated from this accruing earned surplus for certain permanent or semi-permanent investments in fixed property, leaving $261,738,664. This remainder was carried in an "undivided earned surplus" account, as representing assets of a more liquid and changing character, described in the official statement as follows:

Inventories		$213,824,956
Receivables		30,538,681
Securities and Home-Owning Contracts		45,711,490
Cash		75,832,814
Advanced Operating Charges		2,896,302
		$368,804,243
Less		
Current Liabilities	$58,776,873	
Contingent Liabilities (represented by Sundry Reserve Funds)	48,288,706	
		107,065,579
Leaving net		$261,738,664

The report goes on to say of this part of the surplus:

While, therefore, $261,738,664 of the Earned Undivided Surplus was at December 31, 1925, carried in the net working assets, it does not follow that any part of same could at this time safely be withdrawn from the business. In the case of the amounts locked up in Inventories and Receivables the fact that such a condition prevails is in itself conclusive. In the case of "Cash" while the amount of $75,832,814 appears in itself large, yet as in the case of Inventories and Receivables, the amount required for actual current working needs is at least double what was so required at the time the Corporation was formed, because of the relatively greater amount of business now being done and the higher level of prices prevailing.

We have given this detailed description of the Steel Corporation's surplus because it is evident that much misunderstanding exists as to the significance of the term "surplus" in company accounts. Fundamentally, it means value against which neither stock nor securities has been issued. It may have been either paid into the treasury in cash or earned in the operations of the business. It is a bookkeeping term, and while certain of the assets may be assigned to such entries, as in the account above, the assets which it represents may be indistinguishable from the other properties of the company. Ordinarily they cannot be withdrawn from the business without affecting its operations.

Increase in Productive Capacity

The results of these expenditures from earnings are to be seen in the following figures showing the increase in the Corporation's capacity for producing its principal products, and in the number of employes:

	1901	1926
Pig iron, tons	7,440,000	18,940,000
Steel ingots and castings, tons	9,430,000	22,750,000
Finished product for sale, tons	7,923,000	16,252,000
Cement, barrels	500,000	16,500,000

The payroll for 1902, the first full year of operation compares with that of 1925 as follows:

	1902	1925
Average number of employes for the year	168,127	249,833
Aggregate payroll	$120,528,343	$456,740,355
Average wages per employe per day	$2.33	$5.88
Actual yearly earnings per employe	$717	$1,828
Basic common labor rate per hour in Chicago and Pittsburgh districts	15c	44c

The expansion of operations is illustrated by the following comparisons. It will be seen that in pursuance of the policy of concentration the number of manufacturing plants has

decreased, although productive capacity has greatly increased. The tendency for open-hearth and electric furnaces to supersede the Bessemer for some purposes is indicated, although the Bessemer is by no means down and out:

	1901	1926
Number of Manufacturing Plants	164	138
Number of Blast Furnaces for production of Pig Iron, Spiegel and Ferro-manganese	70	112
Number of Converters for production of Bessemer Steel Ingots	35	34
Number of Steel Furnaces for production of Open Hearth and Electric Steel Ingots	112	332
Number of By-Product Coke Ovens	120	3,284
Number of Bee-Hive Coke Ovens	16,661	13,305
The number of bee-hive ovens at December 31, 1925, does not include 3,122 inactive ovens which probably will never be again operated.		
Number of Coal Mining Plants	67	105
Railroad Mileage:		
Main and Branch Lines	1,027	1,126
Second Main Tracks	139	442
Lines operated under Trackage Rights	178	348
Industrial Tracks, Sidings and Yards	472	1,946
Total Mileage of Tracks	1,816	3,862
Railroad Equipment (Standard Gauge):		
Locomotives	471	1,464
Cars	26,164	64,705
Marine Equipment:		
Bulk Cargo Vessels and Barges on Great Lakes	114	98*
Steamers on the High Seas	—	35
Steamers and Barges on Inland Rivers	—	380

*While the number of vessels in service on the Great Lakes has decreased, the aggregate carrying capacity of the Fleet has materially increased, arising from disposal of smaller vessels and the construction and purchase of larger capacity ships.

The production of pig iron at blast furnaces averaged about 370 tons per furnace per day in 1901 and had been increased to 545 tons in 1925. The tons of open-hearth steel ingots made per furnace per each melting averaged about 40 tons in 1901, while in 1925 it averaged 79 tons.

The gross commercial value of coke by-products recovered at Corporation plants in 1925 amounted to $36,000,000. In 1901 the waste gases utilized by the Corporation plants represented a fuel value of about $3,000,000. In 1925 the gases and other recovered by-products that were made available for fuel purposes reached a total of close to $40,000,000.

Market Price of Products

The outlay of the Steel Corporation in the manufacture of iron and steel is nearly all for labor, inasmuch as it produces the ore, coal, limestone and other important raw materials, from the properties of its subsidiary companies and assembles them by its own means of transportation. In view of the fact that the average wage of all employes of the Corporation and its subsidiary companies increased 2½ times from 1901 to 1925, it is interesting to examine the increase of iron and steel prices in approximately the same time. The Iron Age began in 1903 the publication of a weekly composite price of the several grades of pig iron and another composite representing seven important steel products. This composite average for pig iron over the year 1903 was $18.18 per ton and the corresponding average for the eleven months of 1926 ended with November, was $20.46, an increase of 12.32 per cent. The composite average of steel products in 1903 was 1.868 cents per pound, and in the eleven months of 1926 ended with November, 2.435 cents, an increase of 30.35 per cent. It is evident therefore that the prosperity of the Corporation has not been achieved at the expense of either its employes or the consumers of its products, but to economies in production accomplished to a great extent by the reinvestment of profits. Moreover, but for these economies it could not possibly have paid as high wages or sold its products so low in price.

This comparative of showing of wages and prices vindicates the claim that the organization of the Corporation was a great constructive business enterprise.

The Capital Structure

The capitalization of the Corporation, including all issues of every kind representing investments or claims upon its earnings, in 1901 and at the end of 1925 is shown herewith:

	1901	1925
Preferred 7% cumulative stock	$510,205,743	$360,281,000
Common stock (100 par)	508,227,394	508,302,500
Sudsidiaries' minority stock	535,407	573,719
U. S. Steel bonds	303,450,000	350,926,000
Subsidiary company bonds	59,091,657	157,895,900
Mortgages and Purchase Money obligations	21,872,022	657,678
Total Capital	$1,403,382,223	$1,378,636,897
Capital per ton of steel ingot capacity	$146.77	$60.65
Interest charges on funded debt and mortgages, and dividends on preferred stock in 1902 and 1925 respectively	$57,754,454	$51,226,025

It will be seen that the aggregate of capital obligations at the end of 1925 was less than at the organization of the Corporation, and very much less in proportion to productive capacity. Moreover, the distribution to stockholders and bondholders in 1925 was less than in the first full year of operations.

There is now no possible justification for saying that the corporation is overcapitalized, for in addition to the increase of physical assets out of earnings there has been a large enhancement of replacement values through the rise of land values and construction costs. Competing works cannot be located and constructed today at anything like the figures at which the Steel Corporation's properties stand on its books. In the report of the Board of Directors for the year 1925, in connection with an account of certain properties aban-

doned during the year, the following statement is made:

The investment cost in the properties abandoned, other than the real estate, has been fully charged off against depreciation reserves accrued during the life of the plants. This same accounting disposition is also given to all property and facilities from time to time rebuilt or replaced. Under prevailing price indexes for labor, material, equipment, etc., and modern standards of construction, the investment cost for replacing an equal productive capacity discarded totals from two to four times the investment cost of the old. In short, as producing capacity has to be replaced a very much greater capital investment is required. A conservative policy demands that so far as possible and practicable these excess capital requirements should be provided from current income rather than by added capital obligations.

Basis for the Stock Dividend

The above statement sets forth the principal facts upon which the proposed distribution of new stock is based. The new issue of 40 per cent will have a par value of $203,321,000, raising the total issue of common stock to $711,623,000. There is no disbursement of money in this transaction, but of course the new stock will participate in all common dividends in the future. If the 7 per cent rate is maintained the increase in the annual distribution to stockholders will be $14,232,470.

When the Corporation was organized it was commonly estimated that the common stock then issued represented "intangible values," in other words, the value of the established and "going concerns" which were taken over and something for additional earning power given them in the new organization. What it would be worth depended largely upon the economies which could be realized by the coordinated operation of the properties. By limiting the dividends which might have been paid on the common stock the management has turned back into the properties the sum of $899,658,618, which equals the full face value of the original stock issue, plus the issue now proposed, and $288,035,614 over. These figures are for 24¾ years and the results of another 1¼ years will have been added by the time the plan is consummated.

The action is popularly described as "cutting a melon," but if that description is to be used it is well that there be a general understanding that the "melon" in this case has come to maturity under careful and skillful tending over a period of 26 years. Moreover, nothing that has been gained to this time is to be distributed or consumed. The 90,000 individual holders of the common stock are to have in the future a share of the earnings coming from the new productive capacity which has been built up by the management.

Relations with Employes and Competitors

It would be an unjustifiable omission to say nothing in this review of the relations of the Corporation with its employes and competitors, or its consistent attitude toward the public. The only criticism that ever has been made of its relations with labor has been on account of its refusal to allow its employes to become unionized, which is too large a subject for discussion here. It is pertinent, however, to say that the actual leaders of the strike were an element with whom the American Federation of Labor is now in open hostility. The policy of the Corporation toward its employes has been one of consistent liberality and considerate treatment. In the payment of liberal wages, the movement for the reduction of working time, provisions for health, comfort, safety, housing and the acquisition of stock in the business, it has shown an enlightened interest in their welfare. At the close of 1925, 47,647 employes were registered stockholders, holding in the aggregate $66,580,000 of the preferred and common stocks. A profit-sharing plan has been in operation since 1921. A pension system is maintained under which at the end of 1925 5,084 retired employes were receiving pensions, and since the inauguration of the plan in 1911 an aggregate of $13,295,809 had been paid. The subsidiary companies have a "home-owning plan," under which they have loaned over $12,000,000 to employes at 5 per cent interest. Excellent hospital service is provided at the works.

The fears that were originally entertained that the power of the big Corporation might be used in a manner unfair to small competitors have altogether disappeared. It has not been accused of attempting to put competitors out of business or of unscrupulous business practices. It is generally acknowledged to have exerted a stabilizing influence in the industry. The policy of the management has been to be honest with the public, render good service and satisfy public opinion. Its action in yielding in the controversy over "Pittsburgh plus" is an example of this policy. The success which the management has achieved in establishing itself in the esteem of the public is very largely due no doubt to the wise guidance which has been given by the Chairman, Judge Elbert H. Gary, but the Board of Directors and officials of the subsidiary companies are entitled to their share of the credit for the cooperation they have given. The entire business community is indebted to the management of the Corporation which for nearly 26 years has held the leading position in American industry.

Higher Railroad Wages

The arbitration proceedings under the Railway Labor act which became a law last May, upon the wages of conductors, baggagemen flagmen and yardmen on the Eastern railroads, of which proceedings mention was made in our November issue, resulted in a decision giving

a general increase of 7½ per cent. The railroad companies had hoped for less and the employes for more, but a compromise is the usual outcome of such proceedings, as the opposition of the new law prophetically urged when the increase was pending.

The arbitration related only to the Eastern group of railroads, which includes the systems operating between the Atlantic Seaboard and Chicago and St. Louis, but proceedings are being inaugurated in other sectional groups. Furthermore, other classes of railroad employes are taking steps to present their claims in like manner, and there is reason to expect that the movement will not rest until railroad wages generally are established on a basis at least as high as the peak rates of the boom period, which in view of the general fall of prices means a great advance in purchasing power. This award places the pay of the employes covered by it slightly above the peak.

Arguments For and Against

In presenting their case the representatives of the employes urged that the employing companies of this group were prosperous and that the men were entitled to share in that prosperity. The majority decision says it was not contended that these railroads cannot afford to bear some increase in the wages of their employes, and that "the award is made after full consideration of all the conditions and circumstances presented in the record, and of the peculiar, hazardous and responsible character of the services performed by these employes."

The members of the Board appointed by the President of the United States voted with the members named by the brotherhoods and the members named by the defendant companies voted in the negative. The latter referring to the arguments based upon the elements of hazard, responsibility, etc., in train-service stated that these elements had been considered in the past and that their importance as factors had not increased in recent years, but that improved equipment, higher standards of track maintenance and inspection, and other conditions had accomplished a steady reduction of the casualty ratio and also had reduced the average time of freight runs.

The minority opinion touches upon the recent capital expenditures for the improvement of transportation and the net earnings of the Eastern group of roads, as follows:

As to the claim that increased productivity of the individual resulting from longer and heavier trains and increased train speed warrants additional compensation—it was shown that the carriers of the Eastern District have since 1921 expended approximately $928,000,000 for heavier locomotives, improved car equipment, grade reductions, additional main and running tracks, automatic signals and train controls, heavier rails, better ballast, improved interlocking, grade crossing eliminations, fuel and labor-saving devices, improved terminal facilities, all contributing to increased efficiency in operation and service without additional effort or burden to these employees; and that from such savings as have resulted, these employees are now getting a liberal share as compared with the investors.

The Eastern Carriers in 1925 earned 5.13 per cent. on their investment in road and equipment, as compared with 5.74 per cent. in 1916. In 1921 but 2.76 per cent. was earned.

The total deficiency in the net railway operating income of these Carriers, based on 5¾ per cent., aggregates from 1921 to the end of 1925 the sum of $824,706,347.

Since 1921, freight rates have been reduced to such a considerable extent that based upon traffic handled by these Carriers in the year 1925, there was saved to the shippers the substantial sum of $244,117,679.

Resulting from the operations of the year 1925 (a year of prosperous business conditions) the Eastern Carriers were able to pay to the stockholders in dividends but 4.61 per cent., while interest paid on funded debt was 4.71 per cent.

With the necessity facing the Carriers for continuing large expenditures in order to provide safe, efficient and economical transportation, their financial credit must be such as to make investment in their stocks attractive to the public.

The payments mentioned to stockholders and holders of the funded debt illustrate the general truth that the pre-war capital invested in railroads is generally receiving little or no greater nominal return than before the war, which means that in purchasing power it is very much reduced. The employes had been compensated for the decline in the purchasing power of money by an increase of approximately 100 per cent. in wages even before the advance now allowed, while the pre-war investors have had practically no compensation on that account.

The Public Interest

It does not appear that in these proceedings any argument was made in behalf of the third party at interest, the public, which ultimately pays railroad expenses through the charges. The railroad officials told of rate reductions which are always going on through adjustments to meet particular traffic conditions, but were not prepared to suggest further ones as an alternative to wage increases.

Not to criticise the decision, over which the public as well as the arbitrators will differ, it is easy to understand a tendency on the part of arbitrators to yield something to appeals in behalf of a body of wage-earners whose personnel commands respect and whose claims are earnestly and effectively presented. The companies made an appeal in behalf of the security-holders, who inevitably are visualized as people of surplus means, and the victim who is the actual source of all railroad revenue, the ultimate consumer, is not mentioned in the proceedings. He is so numerous that he is nobody in particular. The charge upon consumers is so widely diffused that nobody is supposed to notice it. It is not unlikely that the railroad officials themselves, if they had to choose, would prefer wage increases to loss of revenue or a surrender of one-half the net earnings above 6 per cent to the United States Treasury, as provided for in the railroad act.

Under the circumstances it is not strange that wages go up; who is there to effectively say nay?

The farmers of the West have constantly named existing freight charges as one of their chief grievances, and their organizations have appeared at all hearings where rate-increases were under consideration, to offer vigorous protests. It is undeniable that the increased charges made necessary by higher operating costs since 1914 have borne heavily upon bulky farm products, especially since the fall of prices.

In Iowa the farmers rose up against Senator Cummins, on account of the provision in his railroad measure erroneously said to guarantee railroad investments, joining hands in the uprising with the railroad brotherhoods, who conducted an open campaign against him. In the original draft of his railroad bill the Senator had included a provision inhibiting strikes by railroad employes, which was eliminated on account of the opposition of organized labor in general and the railroad employes in particular. The Farmer-Labor combination won in Iowa and also in Wisconsin, where Senator Lenroot was the object of the joint movement.

Whether because of consideration for their allies in these political struggles or because their hopes are now centered upon legislation to control the prices of their products, the farm organizations apparently look upon the efforts of the brotherhoods to secure a general advance of wages with indifference, and they probably are the only bodies strong enough in number to offer effective opposition. They know, of course, that wages are the chief factor in freight charges, but they say not a word. It is true that the Eastern railroads do not run into Iowa and Wisconsin, but the farm products of those states cannot reach the East without passing over these roads. Furthermore, the brotherhood members in Iowa and Wisconsin naturally will not be slow in wanting increases to correspond with those obtained elsewhere.

The Other Side of High Wages

The public listens sympathetically to appeals for more wages, and inclines to look for reasons to justify them. In the abstract, the plea of wage-earners for a higher standard of living is irresistible until it collides head-on with a protest from the same people against high living costs. Everybody would vote in favor of more wages if wages could be picked out of the sky, but the only wage increase that is worth anything to the recipient is one that will enable him to command more of the products or services of other people. Always, therefore, questions arise as to the other people and their rights and claims to consideration. Who will pay the wage-increases and how will his standard of living be affected?

The argument for the railroad men has been that they are poorly paid in comparison with certain other wage-earners, notably in the building trades, who have been in a particularly fortunate position since the war; moreover, the cost of living is high, particularly the item of rent. The plea has been successful in this case, which tends to strengthen the effort to have the wages of the building trades made the standard throughout organized industry. The arguments in behalf of the railroad men, however, show that the wages of the building trades have not come in any real sense from the pockets of builders or landlords but from rent-payers, the great body of whom are wage-earners. Nothing more than the facts in relation to house-rents as presented in this case is necessary to prove the fallacious character of much of the generalizing that is current about the beneficial effects of wage increases.

The building trades stoutly declare their intention to hold on to the new standard of living which they have won, but that standard has risen largely because their wages have advanced faster than those of other workers. Do they mean that they expect in the future to maintain this advantage, obtained under exceptional conditions, as a vested right? The fact that they make this declaration in a convention of the Federation of Labor indicates that they do not understand the real purport. If the other groups of workers succeed in obtaining wage-increases to correspond, thus raising the cost of living for the building trades, the latter will have to win more increases to maintain their present advantage. Industry will have neither peace nor higher living standards as the result of such policies.

The Five Day Week

The building trades are now leading an agitation for the five day week. Mr. Green, President of the American Federation of Labor, in an address before the Building Congress in New York a few days ago is reported as defending the five day proposition in general terms as follows:

> Labor, said Mr. Green, denied the charge that the shorter week would tend to increase the cost of manufactured articles and that such increased cost would burden the consuming public and greatly handicap American industries in foreign markets.
>
> "Under the stimulating influence of the economic and social benefits resulting from the establishment of the short work week management," Mr. Green continued, "the workers will develop plans and methods which will result in expanding productivity so that the cost of the manufactured article will be reduced instead of increased."
>
> "The advocates of the shorter week are thoroughly conscious of the fact that readjustments involved in the institution of a shorter work week cannot be made until industry and those associated with it are ready and prepared to accept it. Any premature attempt to impose such a vital change might defeat its purpose."

This is a temperate presentation, and there is no need to offer objection to it or to raise an argument over Mr. Green's theory. Every-

body will welcome a demonstration of its truth, and there is no better place to begin than in the building industry. The general impression is that up to this time high wages and shorter working time have not reduced building costs.

Mr. Green is preaching his doctrine in the right spirit and it means much that a man of his reasonable views is chosen as the head of organized labor. Accepting his theory, however, for all there is in it, the fact remains that there are limits to its practical application and that policies regarding either working time or wages which have the effect of increasing industrial costs inevitably disturb and hamper industry and inflict widespread injustice among the workers themselves.

The Present Wage Movement

The monthly news letter published by the "Labor Bureau, Inc.," December, 1926 issue, says:

> Wage increases in November continued at a fairly constant rate and food prices were lower than the constant rate and *food prices were lower than the prices in the Fall of 1925.*
>
> "The same number of gains (wage increases) were reported this November as last," it was said. "The only significant factor in the scale changes noted was that for the first time the building crafts did not bulk large in accretions to pay. Only two increases were reported for all construction workers through the country.
>
> "Transportation employes, on the other hand, received more increases than in any other month this year. The printing trades, as usual, report more advances than other groups."

The fact that food prices are lower in the face of continued wage increases and an apparent state of general prosperity in the town industries, is what the farmers complain of, and not without reason. Approximately 30 per cent of the country's population is on the farms and a prosperity that does not include them is not on a stable basis. It is safe to say that the present disparity between the rewards of labor on the farms and in the town industries will not be permanent. It is improbable that the plans for raising the prices of farm products through legislative expedients will produce any practical results, for the equation between agriculture and the other industries cannot be controlled by manipulating one side of it, but the continued movement of population from the farms to the cities is sure to have results on both sides and will eventually restore the equilibrium.

High Wages and Prosperity

So much is said in current discussion to the effect that high wages are the secret of this country's prosperity that in the interest of clear understanding it is well that some qualifications be made. High wages which accompany high productivity, either as a cause or a result, undoubtedly make for prosperity and the general welfare, but high wages which contribute to high industrial costs and are passed on for consumers to pay have no such beneficial results. If they yield benefits to the recipients it is at the expense of the rest of the community, and if no more substantial basis than this existed for the country's prosperity the outlook would be poor.

The real basis of prosperity is that as a rule prices to consumers have advanced less than wages, thus enabling the wage-earners to consume a larger physical quantity of goods. This could not be so unless productivity was increasing.

If wages and prices both advance 50 per cent with production remaining the same, it is evident that the wage-earning class will have no greater command over commodities than before and that its consumption cannot increase. This is a fundamental truth which is ignored in much of current discussion. Wage increases without increased production signify nothing but the competition of industrial groups with each other. If one wins larger buying powers, it does so at the expense of the others.

If, however, by the installation of improved machinery in production or more powerful locomotives in transportation, the costs of production or transportation are lowered and prices are reduced accordingly, the result to every consumer will be precisely the same as though his wages had been increased, for a portion of his buying power will be available for new purposes.

The improvement in social conditions so much desired is not obtained by wage-battles, which usually are costly and wasteful, or by victories for wage-earners which result in higher prices to consumers, but as Mr. Green describes, by "expanding productivity so that the cost of the manufactured article will be reduced instead of increased."

A Correction

In our November issue a discussion of the silver market appeared which included a quotation from an interesting editorial article taken from the London Financial News, of which the Rt. Hon. E. Hilton Young, Chairman of the late Royal Indian Commission, is Editor-in-Chief. Through an inadvertence the quotation was attributed to the London Financial Times, and Mr. Young was referred to as Editor of the Times. In the interest of accuracy this correction is made.